

State of South Carolina



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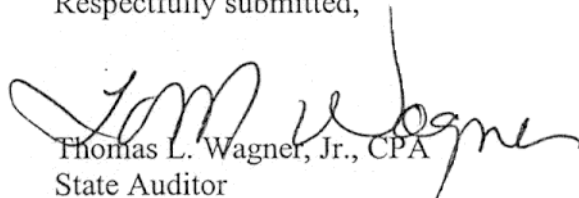
July 12, 2000

The Honorable James H. Hodges, Governor
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
Columbia, South Carolina

This report on the application of agreed-upon procedures to the accounting records and internal controls of the South Carolina Department of Natural Resources for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

**SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES
STATE OF SOUTH CAROLINA**

COLUMBIA, SOUTH CAROLINA

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

JUNE 30, 1999

**SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES
STATE OF SOUTH CAROLINA**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of both the South Carolina Office of the State Auditor and the governing body and management of the South Carolina Department of Natural Resources (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 1999, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations with those of the prior year and tested the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over permits, licenses and other documents issued for money. The individual items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the Department; and, were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures with those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year payroll expenditures to those of the prior year; comparing the percentage change in personal service expenditures to the percentage change in employer contributions; and, comparing the percentage distribution of recorded fringe benefit expenditures by fund source to the percentage distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal accounting controls over the tested transactions were adequate. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 1999, and tested selected reconciliations of balances in the Department's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1999. Our finding as a result of these procedures is presented in Comment 4 of Section B in the Accountant's Comments section in this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the report on applying agreed-upon procedures to the financial records and internal controls of the Department resulting from our engagement for the fiscal year ended June 30, 1998 dated July 23, 1999 to determine if adequate corrective action has been taken. The deficiencies noted were corrected except as noted in Comments 4 and 5 in Section B in the Accountant's Comments section of this report.

9. We obtained copies of all closing packages as of and for the year ended June 30, 1999, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Comments 1, 2 and 3 in Section A in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 1999, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Comment 5 in Section B in the Accountant's Comments section in this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and the users specified in paragraph 1 and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
June 16, 2000

**SOUTH CAROLINA DEPARTMENT OF NATURAL RESOURCES
COLUMBIA, SOUTH CAROLINA**

**ACCOUNTANT'S COMMENTS
JUNE 30, 1999**

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the Office of the State Auditor and the Department require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the Department is responsible for establishing and maintaining internal control. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

1. CASH CLOSING PACKAGE DEFICIENCIES

Our tests of the year-end closing package for cash disclosed the following differences in the reconciled bank balances and the reported balances on the closing package:

<u>Account Number</u>	<u>Reconciled Balance</u>	<u>Reported Balance</u>	<u>Excess Reported</u>
0320319940	\$14,701	\$21,225	\$6,524
0320159965	9,071	9,871	<u>700</u>
Total overstatement of cash on closing package			<u>\$7,324</u>

The differences occurred because the Department reported the unadjusted book balance on the closing package instead of the reconciled balance.

Section 3.1 of the GAAP Closing Procedures Manual prepared by the Comptroller General requires the reporting of the Department's year-end "book balance" for cash in its closing package. The year-end "book balance" is the general ledger balance properly adjusted for reconciling items detected in the monthly reconciliations.

We recommend that the Department prepare and post adjusting journal entries resulting from reconciling items and report reconciled book balances on its cash and cash equivalents closing package which are consistent with the bank reconciliations as of year-end.

2. ERROR IN OPERATING LEASE CLOSING PACKAGE

Our review of the operating lease closing package disclosed that the Department entered the incorrect amount in the section of the closing package where they reconcile lease expenditures per the Department's records to the Comptroller General's amounts. The Department reported the total amount of operating lease expenditures of \$1,690,585 instead of the \$238,079 net difference between those in the Department's records and the printout furnished by the Comptroller General.

The instructions included in the closing package require that if the Department's records do not reconcile to the printout of current year operating lease expenditures furnished by the Comptroller General and the net amount of the difference is \$5,000 or more in total, report in Item I the net amount of the difference and an explanation of the difference (use a negative number to show that the Department's expenditures are lower than the printout amount or use a positive number to show that the Department's expenditures are higher than the printout amount).

We recommend that additional care be exercised by Department personnel in preparing and reviewing all of the financial data and responses included in the closing packages.

3. OPERATING LEASE CLOSING PACKAGE DEFICIENCIES

Our tests of the detailed schedule of the obligations by lease and fiscal year supporting the future net minimum lease payments included in Item II of the operating lease closing package disclosed that the amounts entered on the closing package did not agree with the supporting schedule. The differences noted are as follows:

<u>Lease #/Fiscal Year</u> <u>Ending</u>	<u>Per</u> <u>Closing</u> <u>Package</u>	<u>Per</u> <u>Schedule</u>	<u>Over</u> <u>Under</u>
N-12/June 30, 2000	\$ 1,158	\$ 1,518	\$ (360)
N-39/June 30, 2002	6,066	2,528	3,538
N-74/June 30, 2004	98	490	(392)

We reviewed the operating lease schedule and determined that the minimum lease payment totals for the fiscal years ending June 30, 2000 and 2002 were correct on the closing package. The total on the closing package for fiscal year ending June 30, 2004 was understated by the \$392 difference shown above.

Section 3.19 of the GAAP Closing Procedures Manual requires the Department to prepare an accurate operating lease schedule that is supported by workpapers.

We recommend that additional care be taken in transferring information from supporting workpapers to the closing packages.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the report on applying agreed-upon procedures to the financial records and internal controls of the Department resulting from our engagement for the fiscal year ended June 30, 1998, dated July 23, 1999. We determined that the Department has taken adequate corrective action on each of the deficiencies that were included in the prior report except as follows:

4. PAYROLL – PAY PERIODS

The Department continued to deviate from the State's payroll period/payday schedule for hourly employees. It pays hourly employees on the same pay dates as full-time employees but for 14 or 21 days according to a schedule created by the Director of Administrative Services. The alternate schedule, based on weekly time sheets, is used to facilitate computation of overtime pay to comply with the Fair Labor Standards Act. Neither State law nor the State Budget and Control Board has authorized the Department to use a payment schedule different from the one authorized in Proviso 72.24 of the 1998-1999 Appropriation Act.

This finding was also cited in the prior years' Accountant's Comments.

We recommend the Department implement procedures to ensure it pays all employees according to the payroll period/schedule prescribed by State law. Department personnel told us they had corrected the policy in fiscal year 2000. However, because the new procedures were implemented after June 30, 1999, we did not perform tests to verify the change is operating effectively.

5. FEDERAL FUNDS – CASH MANAGEMENT

The State Treasurer has selected for use by all State agencies for all federal programs the pre-issuance method of reimbursement. Despite the State's policy, the Department continues to use the reimbursement method of funding. As a result, the Department has large federal cash deficits, temporarily funded with State funds. At June 30, 1999, the cash balance deficit in federal funds, as reported on the agency-prepared schedule of federal financial assistance (SFFA) was approximately \$3.7 million.

This finding was also cited in the prior years' Accountant's Comments.

We recommend that the Department comply with South Carolina's Cash Management Improvement Act agreement by renegotiating the funding terms for its grants with Federal grantors to allow for pre-issuance funding. For those grants that the federal grantor will not allow pre-issuance funding, the Department should closely monitor the individual grants to continuously maintain as near a zero cash balance as practicable. The Department should implement policies and procedures to ensure that it timely submits reimbursement requests for individual grants based on expenditures already incurred as well as those anticipated through the estimated date the funds will be received.

MANAGEMENT'S RESPONSE
Appendix A

South Carolina Department of Natural Resources



Paul A. Sandifer, Ph.D.
Director

July 11, 2000

The Honorable James H. Hodges
State House, 1st Floor
Box 11829
Columbia, SC 29211

Dear Governor Hodges:

Upon review of the auditor's report for FY99, the following represents actions taken by the Department to comply with the Auditor's recommendation.

Cash Closing Package – The Department has recognized the difference noted in the reporting package and will report in the future the reconciled balance.

Operating Lease Closing Package – The discrepancies noted were due to clerical oversights. Personnel involved in preparing these packages have been instructed to take additional care in reviewing all data prior to submittal to the Comptroller General.

Payroll Pay Periods – As noted, the Department has made the change to conform to the Appropriation Act.

Federal Funds - Cash Management - In the Department's August 5, 2000 response to the FY98 audit, staff have been monitoring federal fund balances monthly during FY99 and FY00 and have reduced the cash balance deficit substantially. Efforts will continue in this area and discussions will continue with specific federal agencies about this concern and every effort will be made to further reduce this deficit. The Department currently requests reimbursements timely; however, several federal agencies continue to take several months to issue reimbursements. These agencies have been targeted for increased pressure to expedite payment. The Department feels that this action will generate positive results that should be acceptable and still allow our research/management programs to proceed in a professional and accountable manner. However, it should be recognized that with some (300) federal projects, advance on every project is not allowed although advances are received where authorized and those not authorized for advance are invoiced monthly. Several programs, less than ten, account for 75% of the deficit. These ten or less programs are invoiced monthly. At times, it takes several months to receive reimbursement.

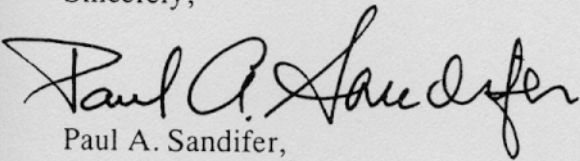
The Honorable James H. Hodges
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Progress has been made in this area as noted below:

FY98	\$3.6 million deficit
FY99	\$3.7 million deficit
FY00	\$1.8 million deficit (unaudited)

This situation has again been brought to the attention of federal administrators and some relief has been provided; however, it appears that this will be a continuing situation with several important federal programs. Policies and procedures have been developed and can be located in the SCDNR Business and Finance Policies and Procedures Manual, Section F-2.

Sincerely,



Paul A. Sandifer,
Director